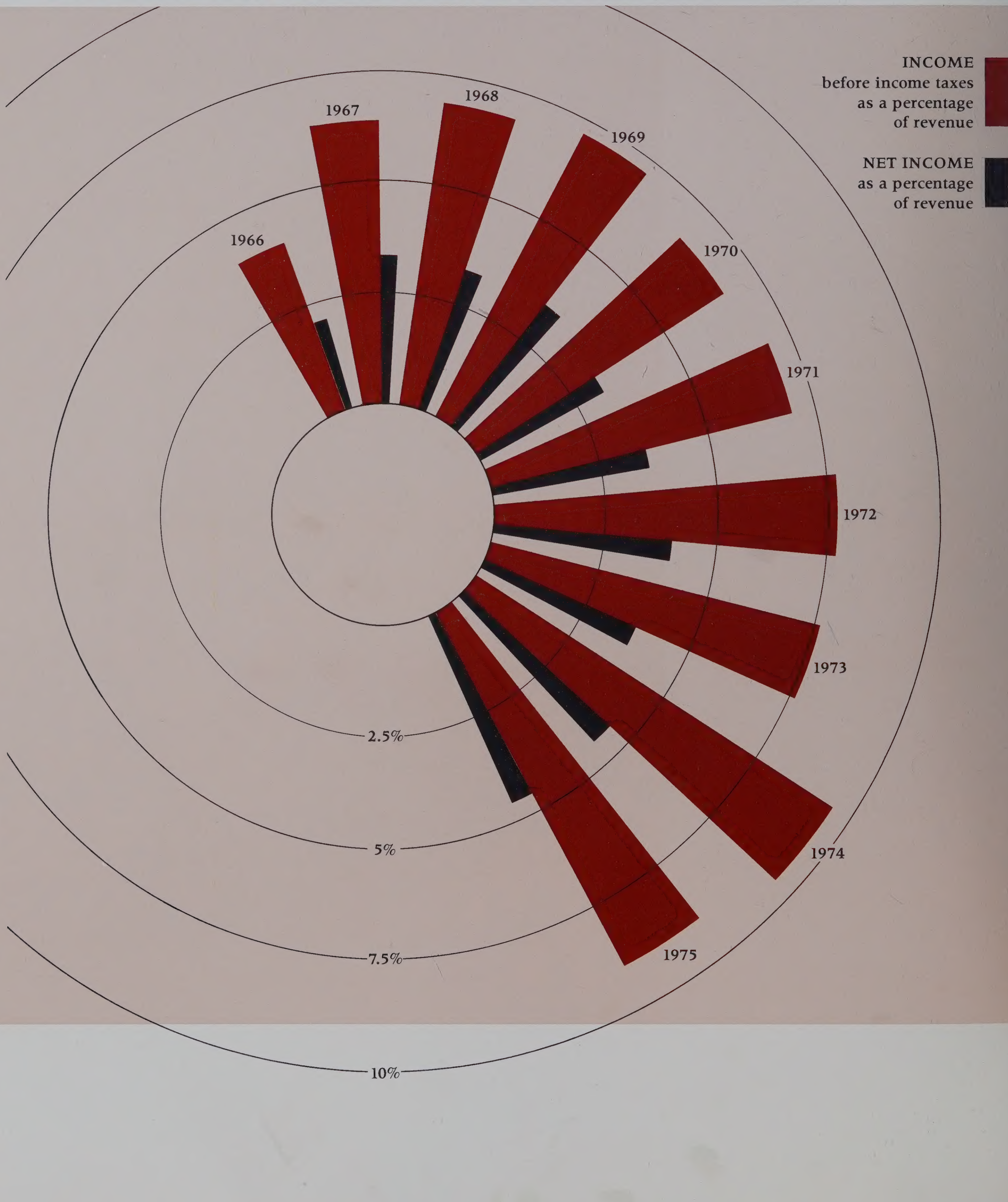
FINNING

Annual Report 1975

Finning Tractor & Equipment Company Limited



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ABOUT THE COVER

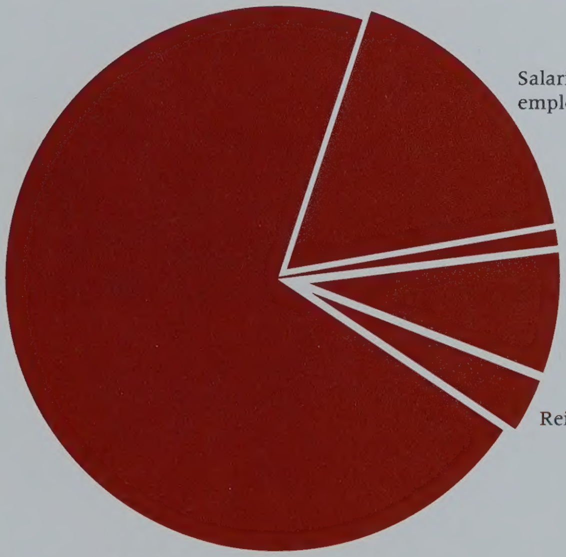
In scissor-like grip, tree cut seconds earlier by feller buncher will be placed with others ready for move to loading area. Feller buncher, developed from the Caterpillar hydraulic excavator, holds, cuts and bunches trees to speed felling, handling, and loading in the Interior. Two models of this machine, along with the hydraulic log loader, were developed in 1975 in preparation for improved logging markets.

Results in Brief

(thousands of dollars)

Revenue	$173,812
Income before income taxes	15,675
Net income	7,942
Capital expenditures	4,628
Net income per share	$ 2.00
Income before income taxes as a percentage of revenue	9.0%
Net income as a percentage of revenue	4.6%
Number of employees at year end	1,467

DISTRIBUTION OF THE REVENUE DOLLAR



To the Shareholders

Revenue for the year ended December 31, 1975, was $173,812,000, compared to $162,101,000 for the same period in 1974, an increase of 7.2 per cent. Net income increased by 9 per cent from $7,286,000 to $7,942,000 and amounted to $2.00 per share, as compared to $1.85 for 1974.

It would appear that the recession in terms of your Company's fortunes bottomed out last September and there is significant improvement in activity since that time.

In periods of high inflation, the accounting figures which are prepared on an historical basis are somewhat difficult to interpret. Accordingly, other means have been developed to measure actual physical volume or activity for comparative purposes. These measurements indicate that our physical volume and activity had been declining during the latter part of 1974 and continued to decline through 1975 until the end of the third quarter when reversal of this trend was evident.

Fortunately, much of the decline was foreseen and steps were taken to deal with it through cost reduction and further emphasis on the generation of ancillary business. This program has been successfully carried out during 1975, as evidenced by the financial results, and a strong fourth quarter has enabled us to meet our projections.

We are in agreement with the need for action in the area of inflation control. While it is recognized that the present government program is imperfect, we will continue to endeavor to comply with both the word and spirit of the anti-inflation program.

An agreement, effective October 15, 1975, was reached with the International Association of Machinists and Aerospace Workers, with 83 per cent of the membership voting acceptance. The settlement was within the guidelines established by the anti-inflation legislation. The Company has agreed to apply to the Anti-Inflation Board for an acceleration of the next wage increase to coincide with wage increases to be received by other union members in British Columbia with whom there has always been an historical relationship. If this application is granted, it would be effective approximately May 7, 1976.

During the recent period of depressed markets, equipment shortages, and the resulting declining activity, every effort was made to retain skilled employees. The Company is now in a good position and, if our projections of increased activity are correct, we look forward to an improving year in 1976.

WM Young

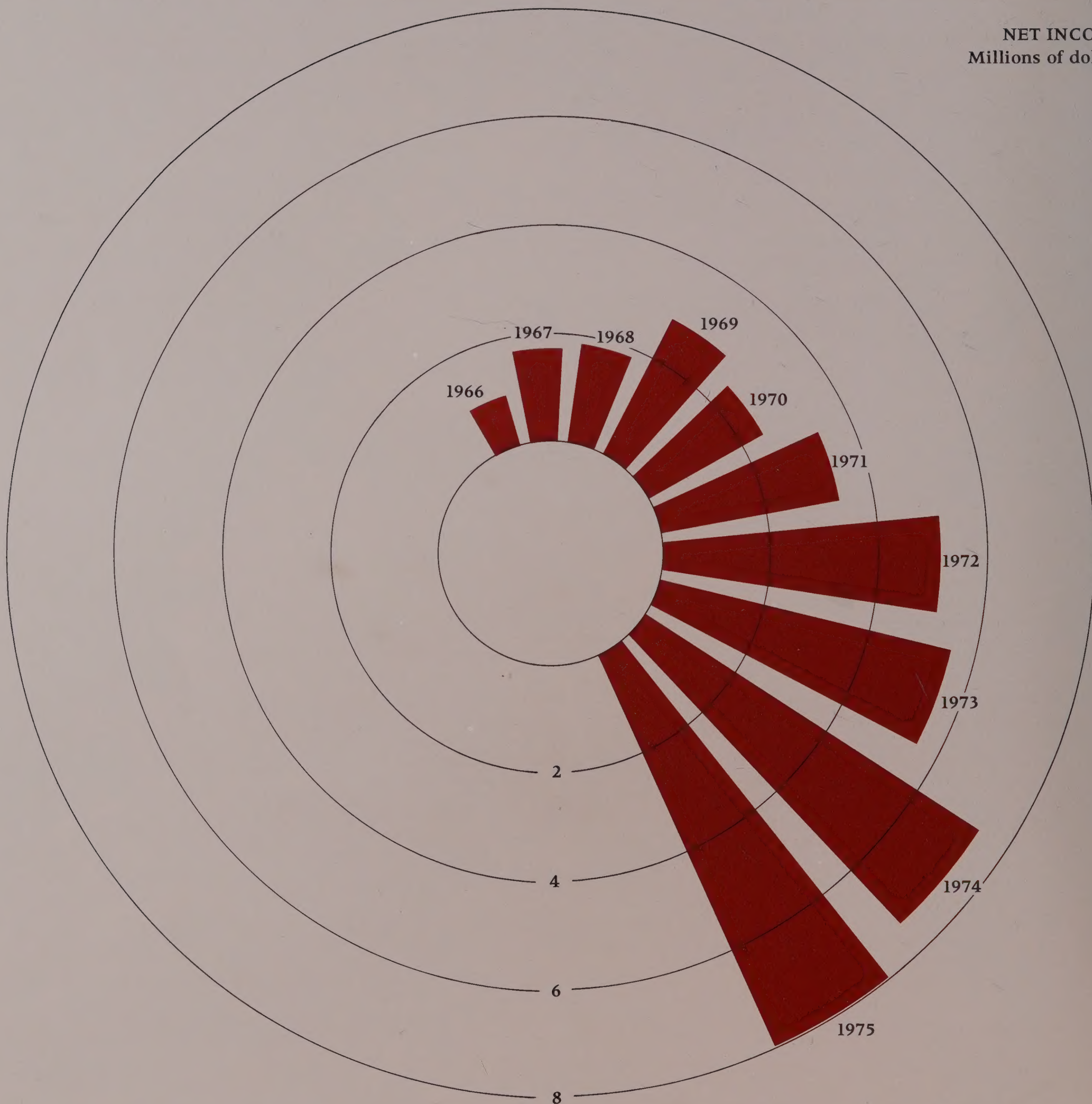
W. M. YOUNG
Chairman of the Board and
Chief Executive Officer

RELane

R. E. LANE
President and
Chief Operating Officer

Branches fly as delimbing flail, carried by Cat wheel loader, passes over trees reducing expense of manual operation.

NET INCOME
Millions of dollars



Market Review

Despite a substantial drop in its contribution to revenues, forestry maintained its position as the Company's major market. The forest industry was hardest hit by the recession as the decline that started in mid-1974 continued through 1975. While the major problems were reduced prices for lumber and slackening demand for lumber, pulp and newsprint, the situation was aggravated by lost production due to strikes and layoffs. Two of the few bright spots were healthy plywood sales and a last quarter recovery for pulp demand in the United States.

CONSTRUCTION

Fortunately, construction activity improved; in fact, value of construction in the province was up some 10 per cent. Residential building overall was down slightly, though quickening towards year end, while industrial and commercial construction soared to $275 million from $178 million. Large scale earthmoving projects were few, primarily extension of the British Columbia Railway in the northwest, highway construction in the Northwest Territories and further widening of the freeway between Vancouver and Hope. Overall, construction picked up some of the slack created by the sag in forestry and accounted for a higher than average share of the revenue dollar.

MINING

Coal replaced copper as the province's most important mining commodity and established itself as a major growth market. Value of coal production climbed to an estimated $348.5 million from $156.8 million in 1974 whereas value of copper fell to an estimated $312.1 million from $541.6 million. Coal exploration was vigorously pushed in the Elk Valley, Sukunka and other regions. Other mineral producers faced a bleak year. Lower metal prices, surplus of copper, development of higher grade reserves in other countries, and increased taxation combined to stall development and production. Exploration activity in the province was minimal as attention shifted to the Yukon and Northwest Territories.

PETROLEUM

Oil and natural gas exploration in northern British Columbia and the Mackenzie Valley area of the Northwest Territories slowed measurably for most of the year. However, construction of the Dempster and Mackenzie Highways continued apace and resulted in a satisfactory year for our operations based at Inuvik.

USED EQUIPMENT

Used equipment activity in 1975 surpassed 1974's record levels. The number of units sold increased almost 20 per cent. While the high used volume in 1974 was due primarily to shortages of new equipment, in 1975 it was due to customers' reluctance to make large, long term investments until the economic outlook was more certain.

PARTS AND SERVICE

Service revenue was up slightly but base activity in terms of parts deliveries and service revenue hours actually declined. Parts activity decreased more than service, an opposite reaction from previous periods of downturn. Extra effort by everyone was directed towards keeping our shops as busy as possible in order to retain our skilled employees.

Service contracts and maintenance programs continue to gain customer acceptance. Several different programs are offered: Scheduled Oil Sampling, which through analysis of used oil can indicate future problems of wear or failure; Preventive Maintenance, a regular inspection, adjustment and report service; and Planned Component Replacement, by which certain major components are scheduled for replacement at specific times in advance of failure, at predetermined flat rate charges. Benefits to the customer are lower operating costs and better machine availability. Also, we are able to even out work loads in the shops and in the field and to plan more effective use of skilled servicemen, a scarce commodity in the labor market.

TRAINING

More emphasis was given to external training and revenues increased by 70 per cent. More than half of the 6,645 training hours were devoted to courses outside of the Company and more than half of these were outside of the province, chiefly to mining companies. The course subjects included supervisory and management development as well as mechanical instruction. Sales, parts and service training in-house continued but at lower levels owing to reduced staff.

NEW PRODUCT DEVELOPMENT

New products were developed to fill out the Company's "systems approach" in logging. In 1974, Caterpillar hydraulic backhoes, primarily used in ditching and other excavation work, were introduced as a logging road-building tool where the terrain was unsuitable for the more generally used track-type tractor. This concept was widely adopted in 1975 and has further potential, partly because of its ecological advantages.

The hydraulic excavator also formed the basis of other new developments. Extensive engineering studies culminated in the design and assembly of a log loader and two models of a feller buncher. The prototype log loader completed field tests in December with flying colors and it has since been sold. Subsequent machines are now being assembled and engineering has started on other models. This new loader fits most applications in Coastal logging operations and rounds out our equipment line for Coastal systems.

The feller buncher is designed for the smaller trees in Interior operations and has its main potential in the Prince George area. The machine, the head or cutter of which is illustrated on the cover of this report, holds the tree, cuts it, and lays it alongside others in a neat bunch for quick, easy handling and subsequent loading onto trucks. Two models of the feller buncher are at work and giving good production and performance.

Also for use in Interior logging systems is a delimbing flail. Manual delimbing of felled timber is a slow, expensive process. The flail, powered by a Caterpillar diesel engine and carried on the forks of a Cat wheel loader, passes over the spread logs at the landing. It is an operation similar to that of mine detonators mounted in front of World War II tanks. Branches are removed quickly and effectively at a fraction of the cost of manual delimbing.

These new products, developed in a year of slow sales, place the Company in a better position to take advantage of the forestry market's return to normal.

Bridge lights and headlights blend as Cat-powered truck completes run.

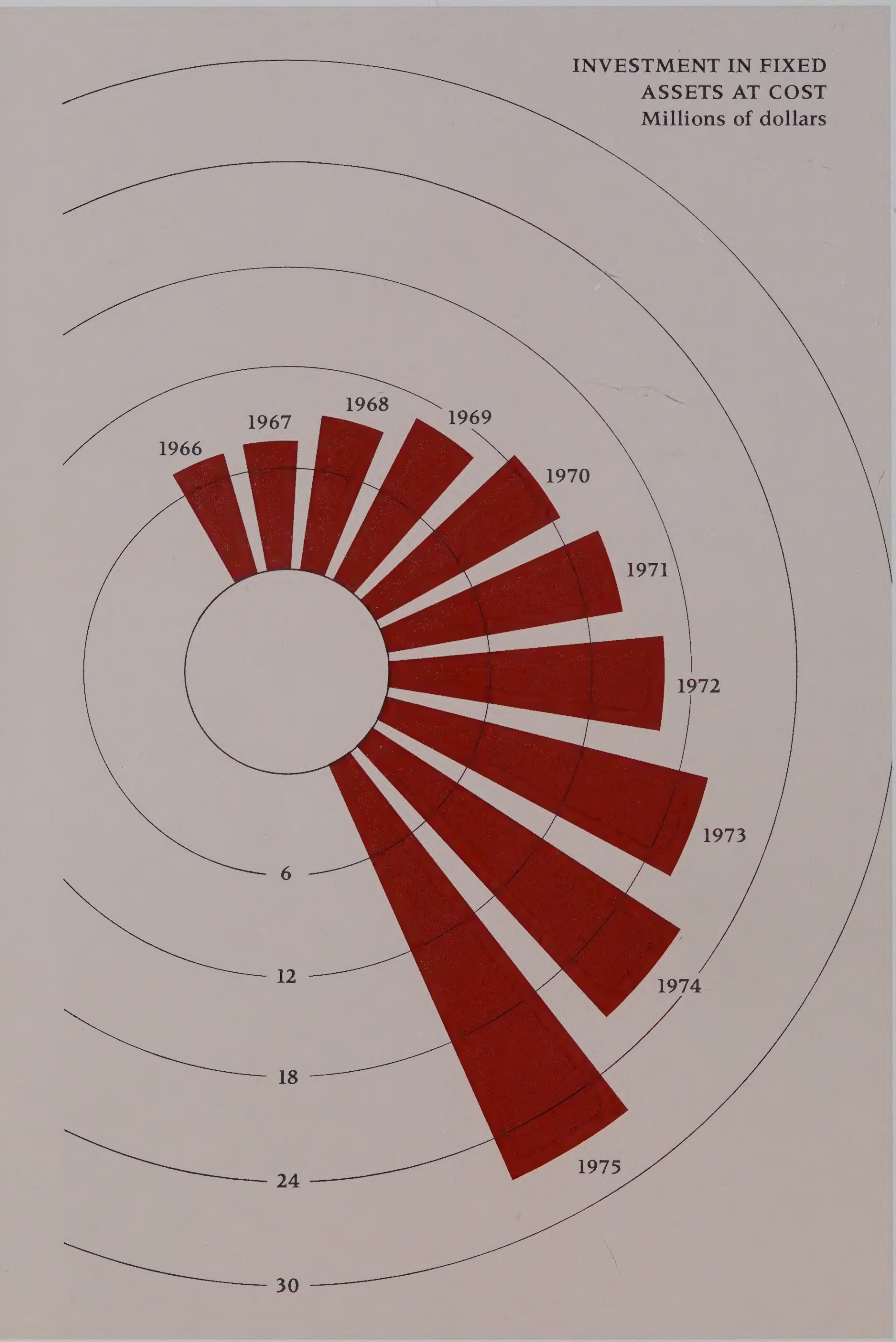
Cat hydraulic excavator won increased acceptance in logging road-building.

Major earthmoving projects were few, primarily railway extension work and this Trans-Canada Highway contract.

Caterpillar D3 tractor, smallest in line, grooms ski slopes on Grouse Mountain.

Raygo Wagner stackers handle up to 120,000 pound loads in dryland sorts.

Meeting construction needs, the hydraulic excavator proved itself in residential subdivision and sewer projects.



Division Review

The five product divisions as a group showed satisfactory results though some fared better than others with markets less affected by the recession.

The Air Products Division again had an excellent year. The Finning Tank Drill held its strong position in the logging, construction and mining industries and first sales of the machine were made to Eastern Canada and the United States. Installation of hydro transmission lines prompted increased usage of tank drills, small drills and compressors. Gardner-Denver's new, large percussion drills made their entry into British Columbia and Alberta. Air Products (Alberta) operations continued to expand, particularly at the Edmonton facility which was opened in September, 1974.

The Crane and Excavator Division experienced shortages of the large Grove rough terrain cranes used in major construction projects. This was compensated for, in part, by continuing volume in truck mounted cranes and a shift to the medium and small-sized models. Rental business increased for the JLG Lift, a mobile, hydraulic personnel lift which can raise loads of 1,000 pounds to a height of 80 feet.

Sales of the three Caterpillar hydraulic excavators more than doubled over the introductory year with good acceptance in sewer and water line excavation, logging road construction, and adaptation to log loaders and feller bunchers. Larger inventories plus research and development of the new logging versions increased the division's expenses and reduced profitability. However, with the log loader and feller buncher prototypes now in the field, the marketing outlook is very encouraging.

The Engine Division had a relatively good year. Unit sales decreased, due mainly to a slump in the marine market, but revenues were close to forecast and the division recorded improved profit. Services to operators of on-site power generating plants were broadened by acquiring an electrical contractor's license. Complete turn-key operation—design, assembly, installation and start-up—can now be provided and this is an important advantage for customers, especially those in remote areas such as the far north.

In October, the division occupied the additional shops and parts area vacated by the Lift Truck Division, enabling it to set up its own separate parts and overhaul facilities and expand its product support capabilities. Shortages of new series Caterpillar engines created a substantial number of back orders but at year end the supply situation was easing and normal deliveries were anticipated.

The truck engine repair centre in Burnaby successfully completed its first full year of operation. This facility has improved our level of service for Caterpillar truck engines and has also improved our position in the truck engine market.

Light Industrial Division sales of new units decreased but, as with the core or general line products, sales of used units increased. A series of Field Days, successfully introduced in 1974, was again held in seven major locations to demonstrate the features of Caterpillar's full line of small machines. The division developed a rental plan which, since its start in September in the Lower Mainland area, promises increased activity.

The Lift Truck Division was the most seriously affected by the economic adversity. Sales and rentals were down sharply, particularly in the large trucks used by lumber manufacturers, and rental replacement costs were higher. Despite the downturn, our position in the overall market improved, with increased sales of Caterpillar electric trucks into warehousing and stevedoring applications.

In Vancouver, the division occupied new premises in October. All division operations are now under one roof in a 35,000 square foot facility immediately east of the Great Northern Way complex. Additional parts and service representation in the Vancouver area significantly increased the number of preventive maintenance contracts.

The success of the Prince George lift truck centre, opened in 1974, led to a similar move in July in Kelowna, centre of the Okanagan Valley fruit industry. Results exceeded expectations.

During the year, Caterpillar continued to introduce new lift truck models and this, coupled with our major improvements in facilities and representation, forms a sound base for future growth.

Log loader prototype was engineered, field tested, and marketed in 1975.

Light Industrial Division introduced rental program for small machines.

New lift truck centre in Kelowna provides sales, rentals and support services for Okanagan fruit industry.

JLG Lift makes ladders and scaffolding unneccessary in repair of barge cranes.

Portable Caterpillar 60 kilowatt electric set provides all on site power for newly-opened hot springs resort near Nakusp.

Personnel and Operations

Capital expenditures totalled $4.6 million. Major projects included relocation of the Lift Truck Division to a 35,000 square foot building on 6.5 acres adjacent to the Vancouver facilities; an addition and renovations to the Prince George operations to provide 4,800 square feet of parts and sales offices; and purchase of the leased building and adjacent service station at Inuvik to accommodate 2,500 square feet of sales, parts and service area.

Several additional depots were established: A new lift truck centre in Kelowna, parts and residential trailers at Cassiar to serve a large asbestos mine, and a new shop at Corbin Mountain in the Kootenay coal fields.

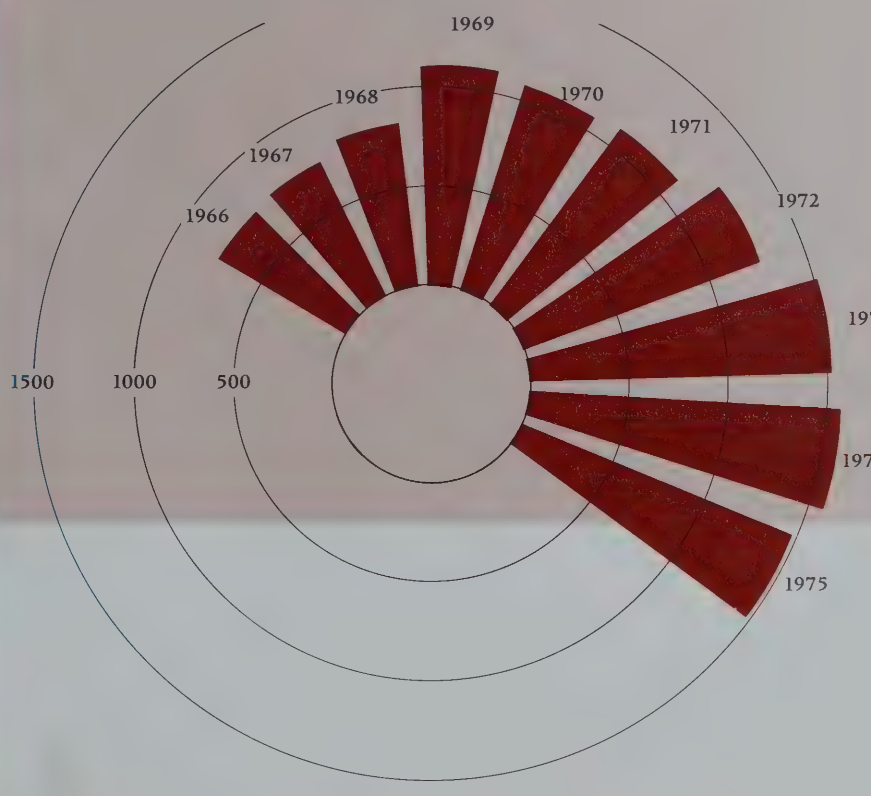
The number of employees at year end was 1,467 compared to 1,542 in 1974. Total wages, salaries and benefits paid to employees in 1975 was $29,695,058, an increase of 10 per cent over the $27,009,276 paid in 1974.

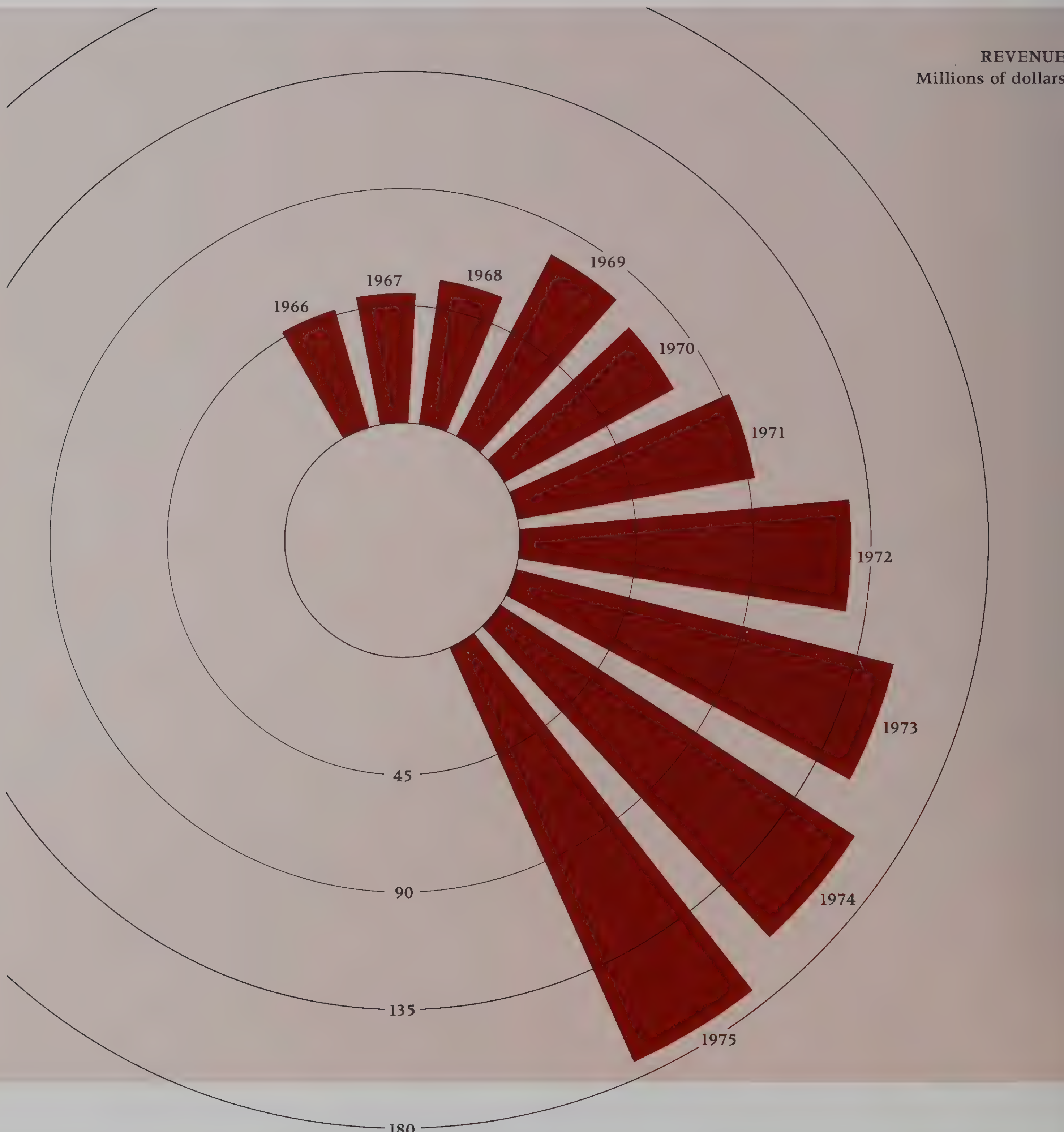
The drop in activity in the first quarter forced layoff of 110 skilled employees. As markets improved, these employees were taken back and, by year end, nearly all had been rehired.

In reaching a one year agreement with the International Association of Machinists and Aerospace Workers, the Company became one of the first in Canada to sign a union contract under the federal wage and price control guidelines. The new contract is in effect to October 15, 1976. The Company has agreed to apply to the Anti-Inflation Board for an acceleration of the next wage increase and, if granted, the adjustment would take effect about May 7, 1976. The benefits and working conditions were ratified in a signed agreement in 1974 and remain in effect to October 15, 1976.

The Company's major operations throughout British Columbia and the Mackenzie Valley region of the Northwest Territories are located in Cranbrook, Dawson Creek, Houston, Inuvik, Kamloops, Nelson, Prince George, Terrace, Vancouver, Vernon, Williams Lake. Depots are located at Burnaby, Campbell River, Chilliwack, Fort Nelson, Golden, Inuvik, Kelowna, Mackenzie, Nanaimo, Port Hardy, Prince George, Quesnel, Sparwood, Revelstoke, and Victoria. Service representatives are resident in 19 other communities.

AVERAGE NUMBER OF EMPLOYEES




REVENUE
Millions of dollars
1966
1967
1968
1969
1970
1971
1972
1973
1974
1975
45
90
135
180

Highlights of Operations

	Revenue	Income before income taxes	Net income	Capital expenditures	Net income per share	Income before income taxes as a percentage of revenue	Net income as a percentage of revenue	Number of employees at year end
1975	$173,812,000	$15,675,000	$7,942,000	$4,628,000	$2.00	9.0%	4.6%	1,467
1974	162,101,000	15,424,000	7,286,000	3,232,000	1.85	9.5%	4.5%	1,542
1973	148,157,000	11,241,000	5,475,000	3,533,000	1.40	7.6%	3.7%	1,577
1972	126,622,000	9,732,000	5,084,000	2,552,000	1.31	7.7%	4.0%	1,373
1971	91,707,000	6,422,000	3,286,000	1,786,000	.84	7.0%	3.6%	1,180
1970	74,092,000	4,867,000	2,384,000	1,630,000	.61	6.6%	3.2%	1,011
1969	78,584,000	5,671,000	2,772,000	1,985,000	.71	7.2%	3.5%	1,207
1968	55,413,000	3,838,000	1,812,000	1,671,000	.47	6.9%	3.3%	894
1967	49,508,000	3,159,000	1,681,000	412,000	.43	6.4%	3.4%	765
1966	45,514,000	1,829,000	967,000	847,000	.25	4.0%	2.1%	750

Consolidated Balance Sheets

December 31, 1975 and 1974

Assets	1975	1974
CURRENT ASSETS:		
Accounts and notes receivable (Note 5)—		
Accounts receivable	$ 24,512,785	$ 24,011,135
Instalment notes, at principal balances, including $13,299,808 due after one year ($11,114,938 in 1974)	30,032,033	24,181,323
Inventories (Notes 2 and 5)—		
Equipment	34,172,074	34,633,496
Parts and supplies	14,988,697	16,684,397
Total current assets	$103,705,589	$ 99,510,351
EQUIPMENT LEASED TO CUSTOMERS (Notes 3 and 5)	$ 26,918,542	$ 20,756,327
FIXED ASSETS, at cost (Notes 4, 5 and 6):		
Land	$ 2,966,148	$ 2,146,129
Buildings and equipment	$ 23,201,696	$ 19,960,847
Less accumulated depreciation	10,151,170	8,936,229
	$ 13,050,526	$ 11,024,618
	$ 16,016,674	$ 13,170,747
	$146,640,805	$133,437,425

Approved on behalf of the Board:

R. E. Lane

R. E. LANE, *Director*

V. Sood

V. K. SOOD, *Director*

Finning Tractor & Equipment Company Limited

Liabilities	1975	1974
CURRENT LIABILITIES:		
Bank loans and indebtedness (Note 5)	$ 72,066,193	$ 65,135,210
Accounts payable and accruals (Note 7)	15,443,153	15,288,804
Income taxes payable	399,189	1,911,996
Deferred income taxes—current portion (Note 8)	4,898,783	4,755,444
Current portion of long-term debt (Note 6)	850,413	646,868
Total current liabilities	$ 93,657,731	$ 87,738,322
LONG-TERM DEBT, net of current portion (Note 6)	$ 275,673	$ 1,081,881
DEFERRED INCOME TAXES (Note 8)	$ 7,148,710	$ 5,596,115
SHAREHOLDERS' EQUITY:		
Share capital (Notes 9 and 10)	$ 9,096,562	$ 8,915,194
Retained earnings (Note 11)—		
Balance, beginning of year	$ 30,105,913	$ 23,922,740
Net income	7,941,931	7,286,023
Dividends paid	(1,585,715)	(1,102,850)
Balance, end of year	$ 36,462,129	$ 30,105,913
	$ 45,558,691	$ 39,021,107
	$146,640,805	$133,437,425

Consolidated Statements of Income

for the years ended December 31, 1975 and 1974

	1975	1974
REVENUE	$173,812,221	$162,100,543
EXPENSES (Notes 12 and 13):		
Cost of sales and selling expenses	$141,641,576	$129,850,532
General and administrative	9,966,672	10,781,263
Interest—Current	6,445,445	5,913,139
Long-term	83,439	132,095
	$158,137,132	$146,677,029
INCOME BEFORE INCOME TAXES	$ 15,675,089	$ 15,423,514
PROVISION FOR INCOME TAXES (Note 8)	7,733,158	8,137,491
NET INCOME	$ 7,941,931	$ 7,286,023
NET INCOME PER SHARE (Note 14)	$ 2.00	$ 1.85

Consolidated Statements of Changes in Financial Position

for the years ended December 31, 1975 and 1974

	1975	1974
FUNDS PROVIDED BY:		
Operations—		
Net Income	$ 7,941,931	$ 7,286,023
Add charges not requiring the outlay of funds—		
Depreciation—		
Equipment leased to customers	6,126,609	4,486,271
Fixed assets	1,535,300	1,503,852
Deferred income taxes	1,552,595	1,242,999
Total funds from operations	$ 17,156,435	$ 14,519,145
Sale of fixed assets	246,394	368,463
Long-term debt	59,811	22,895
Issue of share capital	181,368	124,950
Other	—	60,461
	$ 17,644,008	$ 15,095,914
FUNDS APPLIED TO:		
Additions—		
Equipment leased to customers, net of disposals	$ 12,288,824	$ 10,220,178
Fixed assets	4,627,621	3,231,550
Payment of long-term debt	866,019	654,100
Dividends paid	1,585,715	1,102,850
	$ 19,368,179	$ 15,208,678
Decrease in working capital	$ 1,724,171	$ 112,764
WORKING CAPITAL, BEGINNING OF YEAR	11,772,029	11,884,793
WORKING CAPITAL, END OF YEAR	$ 10,047,858	$ 11,772,029

Notes to Consolidated Financial Statements

December 31, 1975

1. PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the assets, liabilities and results of the operations of subsidiary companies, all of which are wholly-owned. They are:

- Airpro Equipment Ltd., operating as Finning Air Products Division and Air Products (Alberta)
- Cancal Properties Ltd.
- Finning Air Products Ltd., a wholly-owned subsidiary of Airpro Equipment Ltd.
- Finning Finance Limited
- Finning Tractor (1959) Ltd.

2. INVENTORIES
Inventories have been valued at the lower of cost or net realizable value. Cost has been determined on a specific item, actual cost basis for equipment and on a first-in, first-out basis for parts and supplies.

3. EQUIPMENT LEASED TO CUSTOMERS

	1975	1974
Cost	$37,863,319	$29,682,367
Less accumulated depreciation	10,944,777	8,926,040
	$26,918,542	$20,756,327

Depreciation of equipment leased to customers has been provided in the accounts in equal monthly amounts over the terms of the individual leases after giving recognition to the estimated residual value of each unit of equipment at the end of each lease.

Under the terms of the lease agreements in effect at December 31, 1975, $6,009,000 of the above cost will be recovered in 1976 ($4,283,000 in 1975).

4. FIXED ASSETS
Depreciation of fixed assets has been provided in the accounts at the following annual rates on a declining balance basis:

Buildings	5% and 10%
General equipment	20%
Automotive equipment	30%

5. BANK LOANS AND INDEBTEDNESS

	1975	1974
Demand notes	$34,183,799	$29,211,127
Bankers' acceptances payable at various dates within 28 days after December 31, 1975 (within 9 days after December 31, 1974)	37,882,394	35,924,083
	$72,066,193	$65,135,210

Bank loans and indebtedness are secured by the pledge of $75,000,000 principal amount of Series A Debentures, by a general assignment of accounts and notes receivable, and by an assignment of insurance on inventories. The Series A Debentures are joint demand debentures issued by the Company and its subsidiaries as collateral security and constitute a first floating charge on accounts and notes receivable, inventories, and equipment leased to customers. They also contain certain restrictions which, among other things, limit the payment of dividends as explained in Note 11.

The Series A Debentures have been issued to replace the $10,000,000 principal amount of Demand Debentures and other security held by the Company's bank at December 31, 1974, and the First Mortgage Debentures. The Demand Debentures and the First Mortgage Debentures are being discharged, thereby releasing the Company's fixed assets from the security held by the Company's bank.

6. LONG-TERM DEBT

	1975	1974
First Mortgage Debentures	$ 800,000	$1,400,000
Other first mortgages	274,827	254,907
Other secured agreements	51,259	73,842
	$1,126,086	$1,728,749
Less—		
Current portion included in current liabilities	850,413	646,868
	$ 275,673	$1,081,881

The First Mortgage Debentures bear interest at 7¼% per annum and are due on March 1, 1976. They are being discharged as explained in Note 5.

Other first mortgages on certain land and buildings bear interest from 7% to 10% per annum. Combined annual payments, including principal and interest, total $57,624. The maturity dates of the various first mortgages range from 1977 to 1995.

Other secured agreements bear interest from 6% to 8% per annum. Combined annual principal payments total $12,742 and these agreements mature in 1978, excepting a loan against the cash surrender value of a life insurance policy which has no specific repayment terms.

7. CURRENCY TRANSLATION
The accounts payable and accruals include $2,742,572 ($7,050,245 at December 31, 1974) payable in U.S. funds which has been translated to Canadian funds at the year-end exchange rate.

8. INCOME TAXES
The provision for income taxes is calculated on the basis of current effective tax rates. Taxes provided represent 49.33% (1974—52.76%) of pre-tax income of $15,675,089 (1974—$15,423,514).

The reduction in the effective tax rate for 1975 is substantially attributable to the investment tax credit which the Company is entitled to claim in respect of the acquisition of certain equipment rented or leased to customers during the latter half of 1975.

Deferred income taxes have resulted from reporting certain items for income tax purposes on bases which differ from accounting policies. The current portion of deferred income taxes relates to the following current assets:

(a) Inventories, which include equipment rented to customers on a short-term basis. For accounting purposes, depreciation is recorded on the basis of rentals billed while for income tax purposes maximum allowances are claimed.

(b) Notes receivable, which include conditional sales contracts relating to equipment sales. For accounting purposes, the profit is recognized when the sale is made while for income tax purposes the profit is reported as principal payments are received.

The non-current portion of deferred income taxes relates to equipment leased to customers on which depreciation for accounting purposes is recorded as explained in Note 3. For income tax purposes, maximum allowances are claimed.

9. SHARE CAPITAL
The Company is authorized to issue 10,000,000 Common Shares without nominal or par value.

The changes in the outstanding share capital during 1975 were as follows:

	Number of Common Shares	Dollars
Outstanding, December 31, 1974	3,942,950	8,915,194
Issued for cash on exercise of stock options	28,450	181,368
Outstanding, December 31, 1975	3,971,400	9,096,562

10. STOCK OPTIONS
In 1969, an employee stock option plan reserved 194,400 Common Shares of the Company for issue under options granted to full-time officers and employees.

The directors granted options to purchase 84,000 of the 194,400 Common Shares to 17 employees. Of these, six are directors or senior officers who received options to purchase a total of 54,000 Common Shares and 11 were other employees who received options to purchase a total of 30,000 Common Shares. Options were exercisable at $6.375 per share on a 20% cumulative basis during each of the five consecutive 12 month periods which commenced May 1, 1970, and expired April 30, 1975.

As at December 31, 1975, options on 83,400 Common Shares had been exercised. Options on 600 Common Shares terminated on cessation of employment and these shares once again became reserved under the plan. There are no unexercised options outstanding.

Options on the remaining 111,000 Common Shares reserved under the plan may be granted at prices not less than 90% of the higher of the last reported sale price of such shares on the Vancouver Stock Exchange or The Toronto Stock Exchange on the day immediately preceding that on which such options are granted.

11. RESTRICTIONS ON THE DISTRIBUTION OF RETAINED EARNINGS
As the Company is subject to the federal anti-inflation legislation, dividends payable during the twelve months ending October 13, 1976, may not exceed $1,821,506 or 46 cents per share based on the number of Common Shares outstanding as at December 31, 1975 without the approval of the Anti-Inflation Board.

Under the terms of an agreement with the Company's bank, the total amount of dividends and reductions in share capital in any fiscal year may not exceed the greater of the net income for the current or the preceding fiscal year.

At December 31, 1974, certain restrictions on the declaration and payment of dividends existed under the trust deeds securing the Demand Debentures and the First Mortgage Debentures, both of which are being discharged as explained in Note 5.

12. PENSION PLAN
The Company retains an independent consultant to prepare actuarial reports on the employee pension plan. The last report, prepared as of December 31, 1973, indicated unfunded past service costs of $880,000, after taking into account projected future remuneration of employees. In accordance with the consultant's recommendation, this past service cost is being amortized over a period of 18 years which commenced in 1974.

Pension plan expense, including contributions to statutory plans, was $879,000 in 1975 ($818,000 in 1974).

13. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS
The aggregate remuneration paid by the Company and its subsidiaries directly or indirectly to the directors and senior officers was $609,540 in 1975 and $665,510 in 1974.

14. NET INCOME PER SHARE
Net income per share has been calculated on the following weighted average numbers of Common Shares outstanding during each year:

1975	1974
3,964,587	3,939,683

15. CANADIAN ANTI-INFLATION LEGISLATION
The Company and its subsidiaries are subject to the price, profit, compensation and dividend controls imposed by the federal legislation effective October 14, 1975. Based on information available and preliminary calculations, it is the opinion of management that the legislation has been complied with for the first compliance period ended December 31, 1975.

Because of the uncertainties surrounding the interpretation and application of the legislation, its ultimate impact on future operations cannot be assessed at this time. However, it would appear that it will not impair the future business activities of the Company.

Auditors' Report

TO THE SHAREHOLDERS
FINNING TRACTOR & EQUIPMENT COMPANY LIMITED:

We have examined the consolidated balance sheets of FINNING TRACTOR & EQUIPMENT COMPANY LIMITED (a British Columbia company) AND SUBSIDIARIES as of December 31, 1975 and 1974, and the related consolidated statements of income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Finning Tractor & Equipment Company Limited and subsidiaries as of December 31, 1975 and 1974, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

February 6, 1976,
Vancouver, Canada.

ARTHUR ANDERSEN & CO.
Chartered Accountants

HEAD OFFICE
555 Great Northern Way,
Vancouver, Canada

AUDITORS
Arthur Andersen & Co.,
Chartered Accountants,
Vancouver, Canada

SOLICITORS
Ladner Downs,
Barristers and Solicitors,
Vancouver, Canada

REGISTRAR AND TRANSFER AGENT
Canada Permanent Trust Company,
Vancouver, Calgary, Winnipeg,
Toronto and Montreal, Canada

STOCK EXCHANGES
Vancouver Stock Exchange
The Toronto Stock Exchange

Finning Tractor & Equipment Company Limited

Directors

H. CLARK BENTALL
Chairman of the Board and
Chief Executive Officer, The Dominion Construction Company Limited,
Vancouver

ROBERT C. BISS*
Vice President, Finning Tractor & Equipment Company Limited,
Vancouver

JOHN D. FRAZEE*
Vice President, Finning Tractor & Equipment Company Limited,
Vancouver

JOHN C. GILMER
President and Chief Executive Officer,
CP Air, Vancouver

THOMAS E. LADNER, Q.C.
Partner, Ladner Downs,
Vancouver

RICHARD E. LANE*
President and Chief Operating Officer,
Finning Tractor & Equipment Company Limited, Vancouver

J. ROSS LEMESURIER
Vice President, Wood Gundy Limited,
Toronto

VINOD K. SOOD*
Vice President, Finning Tractor & Equipment Company Limited,
Vancouver

W. MAURICE YOUNG*
Chairman of the Board and Chief Executive Officer, Finning Tractor & Equipment Company Limited,
Vancouver

*Member, Executive Committee

Officers

W. MAURICE YOUNG
Chairman of the Board and
Chief Executive Officer

RICHARD E. LANE
President and
Chief Operating Officer

ROBERT C. BISS
Vice President Parts and Service

JOHN D. FRAZEE
Vice President Sales

VINOD K. SOOD
Vice President Finance

RONALD W. PARK
Secretary

Operations, Division and Staff Managers

W. F. Holmes, Interior Operations
P. J. Kelly, Divisional Operations
D. W. Lord, Coastal Operations
R. W. Stewart, Mining & Major Accounts

J. J. Blunt, Houston
C. A. Cederberg, Terrace
P. Clarke, Inuvik
G. M. Correale, Nelson
J. D. Desimone, Dawson Creek
G. R. Kincade, Prince George
B. A. McDowell, Cranbrook
B. M. Moore, Kamloops
L. E. Norlander, Vernon
J. F. Shepard, Williams Lake

J. A. Carthy, Engine Division
R. W. Claridge, Lift Truck Division
A. E. Holden, Light Industrial Division
M. W. Kooting, Crane & Excavator Division
R. G. Williamson, Air Products Division

R. M. Kaye, General Parts
G. F. Kiss, General Service
B. I. Davis, Vancouver Service
T. R. Motteler, Parts & Service Sales

E. G. Inglis, Training
R. C. Ley, Advertising & Public Relations
C. C. Loyst, Personnel
J. J. Mulvaney, Used Equipment Administration
T. A. Shorter, Used Equipment

L. R. Broderick, Leasing
D. L. Christie, Administration
C. A. Harris, Data Processing
H. H. Lunow, Purchasing
W. F. Merrell, Accounting
R. S. Scott, Credit
A. M. Steele, Audit & Systems

FINNING

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